



City of San José City Budget Overview

**City Council District 4
May 2011**

Purpose

- Provide Overview of the City's Budget
- Describe the City's Budget Problem
- Discuss Approach to Balancing the Budget
 - Multi-Year Approach/Fiscal Reform
 - One-Year Approach to Balancing 2011-2012 Budget
- Capital Budget Information
- Community Feedback
- Next Steps

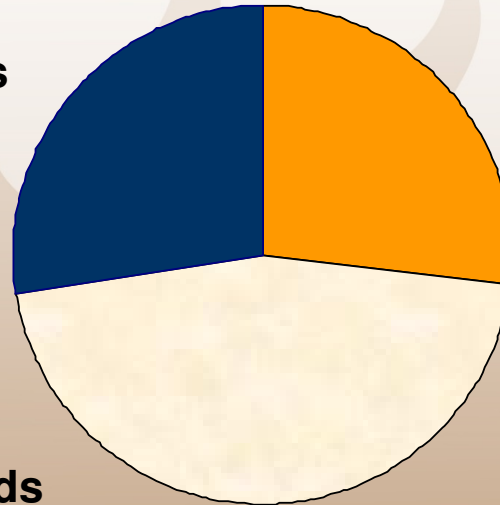
City of San José Budget Overview

2011-2012 PROPOSED CITY BUDGET:	\$2.5 billion
TOTAL NUMBER OF FUNDS:	113
TOTAL NUMBER OF EMPLOYEES:	5,252

Capital Funds
28%

General Fund
27%
(3,620 positions)

Special Funds
45%



Note: Special and Capital Funds are typically restricted and can be used only for purposes specified by the fund

Understanding the Problem: Ongoing Fiscal Challenges Since 2002

1. Expenditure growth outpacing revenue growth
 - Growth in personnel costs (retirement costs the major driver of the increase)
 - Operating costs for new facilities
 - Weak revenue base
2. Residual impacts from severe economic downturn

Understanding the Problem: Ten Consecutive Years of Shortfalls

	Total General Fund Shortfall	City-Wide Position Changes (All Funds)	City-Wide Positions (All Funds)
2002-2003	(\$ 46.3 M)	(36)	7,418
2003-2004	(\$ 92.1* M)	(205)	7,213
2004-2005	(\$ 81.7* M)	(426)	6,787
2005-2006	(\$ 58.0 M)	(115)	6,672
2006-2007	(\$ 34.9 M)	171	6,843
2007-2008	(\$ 19.9 M)	149	6,992
2008-2009	(\$ 29.6 M)	(7)	6,985
2009-2010	(\$ 84.2 M)	(362)	6,623
2010-2011	(\$118.5 M)	(783)	5,840
SUBTOTAL	(\$ 565.2 M)	(1,614)	
2011-2012	(\$ 115.1 M)	(588)	5,252
TOTAL	(\$ 680.3 M)	(2,202)	

*Now at 1986-87
Staffing Levels
when population
was 740,000*

*Includes State impact of \$10.8 million in 2003-04 and \$11.4 million in 2004-05

Understanding the Problem:

Important Services Discontinued in July 2011

2010-2011 Adopted Budget Reductions Effective July 2011	
Police Patrol Staffing (62 FTE/\$9.2M)	Strong Neighborhoods Initiative (6 FTE/\$652K)
Satellite/Neighborhood Centers Closure (38 FTE/\$3.2M)	General Code Enforcement (2 FTE/\$229K)
One Fire Engine Company Elimination (13 FTE/\$2.4M)	Workers' Compensation Claims Staff (2 FTE/\$218K)
Branch Library Hours Reduction (4-5 hrs) (22 FTE/\$1.8M)	Anti-Graffiti Program (2 FTE/\$211K)
Senior Nutrition Program Elimination (26 FTE/\$1.2M)	Development Svcs. Program Mgr. (1 FTE/\$175K)
Park Ranger Program (9 FTE/\$752K)	Info. Tech. Business Applications (1 FTE/\$136K)
Sexual Assaults Investigation Unit (3 FTE/\$581K)	Arts Express Program Elimination (1 FTE/\$131K)
Dr. Martin Luther King, Jr. Library Services (6 FTE/\$549K)	STAND Gang Intervention Program (2 FTE/\$125K)
City Attorney Staffing (3 FTE/\$437K)	Special STI/ITI Development Program (2 FTE/\$106K)
PRNS Special Events Staffing (7 FTE/\$425K)	Aquatics Program Elimination (3 FTE/\$70K)
Police Horse Mounted Unit Elimination (1 FTE/\$282K)	Cunningham Marina Closure (2 FTE/\$60K)
Building Fee Program (11 FTE/net \$236K)	

- Some programs recommended for extension based on available funding

Understanding the Problem: Shortfalls Expected to Continue in Future

Updated 2012-2016 General Fund Forecast (\$ in Millions)

	2011- 2012***	2012- 2013	2013- 2014	2014- 2015	2015- 2016	Total
Projected Annual Shortfall * (Feb 2011 Forecast)**	(\$115.1)	(\$43.1)	(\$25.1)	(\$10.0)	(\$0.1)	(\$193.4)
Total Cumulative Deficit	(\$115.1)	(\$158.2)	(\$183.3)	(\$193.3)	(\$193.4)	(\$193.4)

* Annual budget shortfall attributed to each fiscal year. Assumes shortfalls addressed with ongoing solutions. Any portion of the annual shortfall solved on a one-time basis would carry over to the following year. For 2011-2012, \$35.1 million of one-time solutions will carryover to 2012-2013 (bringing the shortfall in that year to \$78.2 million).

** Does not include cost-of-living salary increases; additional impacts from future changes in actuarial assumptions and methodologies that could impact the City's required retirement contributions; revenue from Marijuana Business Tax, unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses.

*** 2011-2012 shortfall figure updated April 2011.

Understanding the Problem:

Pension Costs – Major Driver of Shortfall

(All Funds)

Retirement Plan	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16
Federated	\$112 M	\$134 M	\$159 M	\$171 M	\$176 M
Police	\$90 M	\$111 M	\$126 M	\$136 M	\$140 M
Fire	\$54 M	\$66 M	\$75 M	\$82 M	\$84 M
TOTAL	\$256 M	\$311 M	\$360 M	\$389 M	\$400 M
% Increase		21%	16%	8%	3%

Understanding the Problem:

Pension Costs – Major Driver of Shortfall

- New/enhanced benefits granted since the voters approved the minimum levels in 1965
- City's annual required contribution doubled over past decade and are projected to rise even further in the near future
- Unfunded liabilities play a major role in rising contribution rates
- Large market losses have increased unfunded liability
- Declining ratio of employees to retirees and beneficiaries creates a risk of even higher future contribution rates
- At current contribution rates, the amount owed in pension liabilities will grow at a much faster rate than plan assets

Understanding the Problem:

Police/Fire Sworn Personnel Cost Increases

- Increased retirement contributions account for 90% of estimated cost increase for sworn personnel in 2011-2012

	Police Sworn	Fire Sworn
Retirement Contributions Increases	\$ 25.4 M	\$ 17.2 M
Health and Other Fringe Increases (Health, Dental, Unemployment)	\$ 1.9 M	\$ 1.0 M
Salary Step Increases	\$ 1.2 M	\$ 0.6 M
Total	\$ 28.5 M	\$ 18.8 M



APPROACH TO BALANCING THE BUDGET

**(Closing a General Fund Gap of
\$115 Million in 2011-2012)**

2011-2012 Budget Balancing Strategy

Revised General Fund Shortfall

\$115 M

Budget Balancing Solutions*

- Additional Fund Balance/Sources
- Expenditure Reductions

\$ 18 M

\$ 97 M

Total Budget Balancing Solutions

\$115 M

* 70% of the shortfall addressed with ongoing solutions

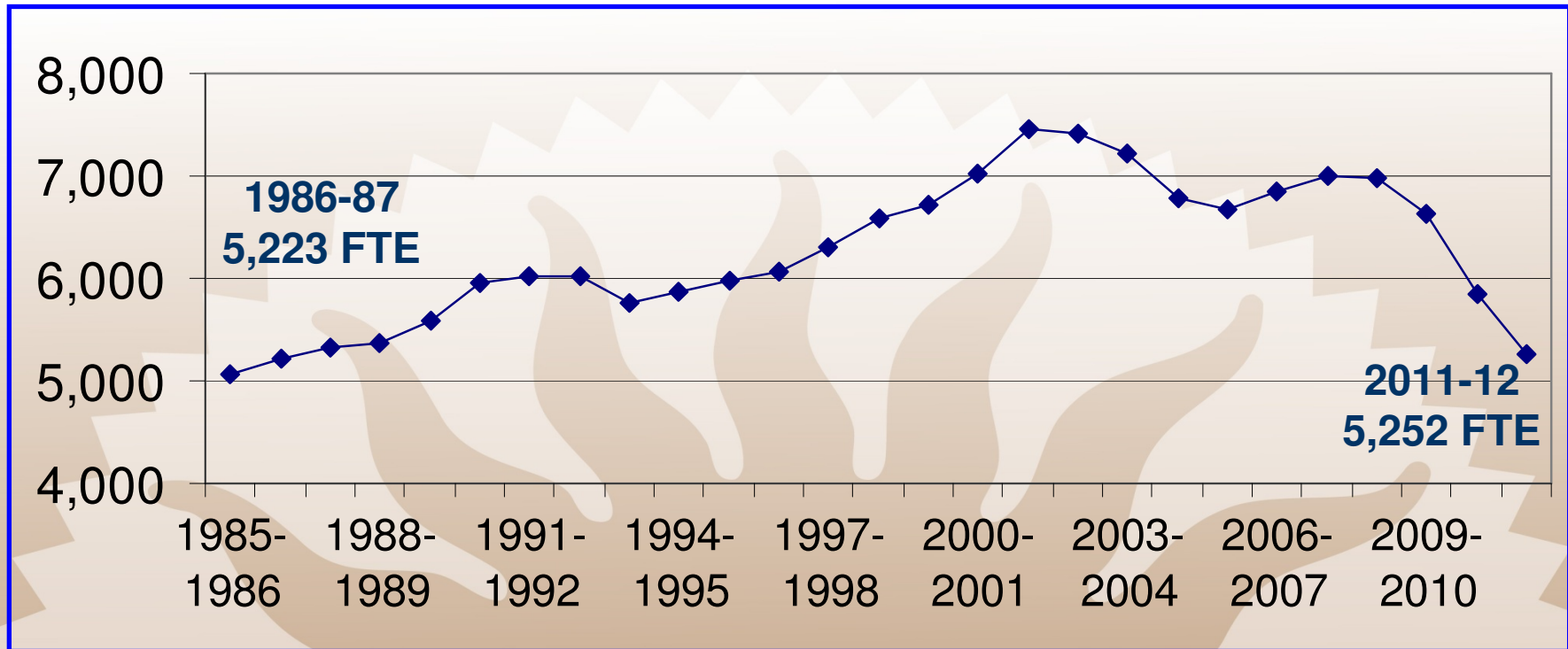
Proposed Budget Position Change (All Funds)

-428

- From 2010-2011 Adopted Budget staffing level (5,840), almost 600 positions (all funds) eliminated, which brings staffing to 1986-1987 levels

2011-2012 Budget Balancing Strategy

Total City Positions



Approach to Balancing the Budget: Mayor's March Budget Direction

- Fiscal Reform Guiding Principles (Multi-Year Approach)
 - Path to restore services (police, fire, libraries, and community centers) to January 2011 levels
 - City's annual retirement contribution should be maintained at no more than 2010-2011 cost
 - Retirement reforms for current employees should alter the future, unaccrued retirement benefits
 - Pension costs shall not be pushed out to future generations
 - Weaknesses of current defined benefit plan must be addressed
- City Council and Community Goals
- Feedback from Neighborhood Association Meeting and Community Survey

Approach to Balancing the Budget: Strategies to Address 2011-2012 Shortfall

- Limited Additional Funding Sources
- Expanded Employee Concessions
- New Service Delivery Models/Efficiencies
- Service Reductions/Eliminations

Approach to Balancing the Budget: Limited Additional Funding Sources

- Use of Fund Balance/Reserves
- Transfers from Other Funds
- Fee Adjustments
- Not Seeking Voter Approval of Other Major Revenue Measures at this Time
 - Tax increases (Sales Tax, Business Tax, Disposal Facility Tax, Municipal Water System)
 - Chances of passing revenue measures are expected to improve after pension reform and concessions

Approach to Balancing the Budget: Expanded Employee Concessions

- Employee concessions sought to avoid service cuts and save jobs
- Council continued direction to achieve a 10% in total compensation savings (including roll back of any general wage increases received in FY 10-11 and healthcare cost containment measures)
 - **Total Net Savings: \$39.6 million in 2011-2012 General Fund balancing strategy**
- In addition to 10% total compensation reduction, achieve additional reforms
 - Retirement (pension and retiree healthcare)
 - Sick Leave Payout
 - Compensation Structure
 - Vacation Sellback
 - Disability Leave Supplement

Approach to Balancing the Budget: New Service Delivery Models/ Efficiencies

- Outsourcing Services (parks maintenance and custodial services, graffiti removal, Police/Fire services at Airport)
- New Service Delivery Models/Efficiencies (Police pre-processing, staffing on Fire truck companies, Fire Hazardous Incident Team, warehouse services, departmental administrative services)
- Department Consolidation (Public Works and General Services)
- Civilianizing Police Positions

Approach to Balancing the Budget: Service Reductions/Eliminations

- Focus on retaining core services to the extent possible
- Eliminate/phase-out programs where the City can no longer afford to provide the service
- Balance public safety and non-public safety reductions
- Delay opening new facilities to avoid new operational costs in 2011-2012
- Use ongoing budget solutions to the extent possible

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MAJOR PROPOSALS TO REDUCE OR ELIMINATE SERVICES

Approach to Balancing the Budget: Libraries and Community Centers

- Reduce branch library days of service from 4.5 to 3 days per week
- Delay opening of the Seven Trees, Bascom, Educational Park, and Calabazas branch libraries and Bascom community center
- Reduce hours at the community center hubs from 63 to 59 hours per week

Approach to Balancing the Budget: Parks and Other Community Programs

- Reduce the Park Ranger Program
- Reduce/reallocate Healthy Neighborhoods Venture funding
 - Support gang prevention (at a reduced level)
 - Reduced funding for community grants
 - Maintain funding for Children's Health Initiative
 - Provide funding for Senior Nutrition Program
- Reduce landscape maintenance/watering at parks
- Eliminate funding for Children's Carousel at Arena Green

Approach to Balancing the Budget: Police Services

- Reduce staff assigned to patrol (includes 62 Officers restored on a one-time basis in 2010-2011)
- Reduce staff assigned to Police investigative units
- Eliminate the Police School Liaison Program (collaboration with the 19 San Jose school districts)
- Suspend the Police Helicopter Program
- Reduce the School Crossing Guard Program
- Delay opening of the Police Substation

Approach to Balancing the Budget: Fire Services

- Implement Flexible Fire Company Brown-Outs (no Fire Station closures)
- Eliminate one Fire Engine Company effective July 2011 (2010-2011 Adopted Budget action)
- Reduce management staff which will increase the span of control

District 4 Capital Projects

- Alviso Park Improvements (estimated 2012)
- Design and/or construction of improvements for various Trails such as Lower Guadalupe River Trail (Gold Street to Highway 880), Coyote Creek Trail (Highway 237 Bikeway to Tasman Drive), Penitencia Creek Reach 1B (Noble Ave to Dorel Drive)
- Route 101/Mabury Road Studies (estimated completion 2012)
- Various rehabilitation or capacity improvement projects for the sanitary sewer system
- Various improvements at the Water Pollution Control Plant as a result of the completion of the Plant Master Plan such as Digester Rehabilitation, Headworks Enhancements, Inactive Lagoons Bio-Solids Removal, and Plant Electrical Reliability

Discussion Question

Based on everything you've heard tonight, what is most important for City leaders to keep in mind as they review the 2011-12 budget?

Next Steps

May 2 nd	Proposed Operating Budget Released
May 6 th	Proposed Fees and Charges Report Released
May 11 th thru 19 th	City Council Budget Study Sessions
May 17 th /June 13 th	Public Budget Hearings (Evening Mtgs.)
June 3 rd	Mayor's June Budget Message Released
June 14 th	Council Review/Approval of Mayor's June Budget Message
June 21 st	Adoption of the 2011-2012 Budget and Fees and Charges